
Minutes

Board of Natural Resources

February 3, 2004
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Terry Bergeson, Superintendent of Public Instruction

Glen Huntingford, Commissioner, Jefferson County

Bruce Bare, Dean, University of Washington, College of Forest Resources

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS ABSENT

Bob Nichols, for Governor Gary Locke

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:00 a.m. on Tuesday, February 3, 2004, in Room 172 of the Natural Resources Building. He noted that Bob Nichols would be absent due to Jury Duty.

APPROVAL OF MINUTES

The January 8, meeting minutes, were not approved as presented.

The Board agreed to defer the approval of the minutes until the February 17, Special Meeting.

LAND TRANSACTIONS

Dusty Land Purchase #08-075502 (Handout 1)

Julie Armbruster presented the Dusty Land Purchase and began with a brief description of the features of the property. Ms. Armbruster displayed the properties on an overhead map noting its location in Whitman County.

Dusty Land comprises 589 acres – 562.6 crop acres; 26.4 acres not in use; no improvements; has access from county road through the property; terrain is rolling hills with flat ground in the creek bottom; 16-18 inch rainfall area.

Production Capacity Per Acre:

60-70 bushels of winter wheat; 50 bushels of spring wheat; 1.4 tons of barley. Acquisition funds provided by the Trust Land Transfer project. Purchase price is 435,000.

Benefits

1) Average income to the state is estimated to be \$25,000 annually, beginning with the 2004 crop. Expected rate of return is 5.7%.

2) To be purchased with a lease in place, to expire in September 2006.

3) Adds productive agricultural property to the common school trust portfolio.

4) Property is of sufficient size and quality that it will attract future bidders when the current lease expires.

Terry Bergeson asked what the outside parameter of a dry land wheat farm would be?

Jim Cook responded that the range is 8 at the lowest and can go as high as 25-30.

The department recommends approval.

MOTION: Terry Bergeson moved to approve Resolution #1107.

SECOND: Jim Cook seconded.

DISCUSSION: Chair Sutherland asked about the history of production on this particular piece of land.

Ms. Armbruster responded that it is estimated at 58-75 bushels depending on the year.

Chair Sutherland asked what the duration of the lease has been.

Ms. Armbruster said ten years.

ACTION: Motion passed unanimously.

TIMBER SALES

Proposed Timber Sales for March 2004 (Handout 2)

Jon Tweedale - Product Sales Manager began with a market update focusing on external forces affecting the market, international dynamics, and supply and demand. He stated that housing starts have been sustained in the US and Canada, and are picking up in Japan. Another changing factor here in the US are that log supplies continue to tighten with supply and demand. Mr. Tweedale explained that supplies are not dropping but a large volume of US and Canadian wood products are being shipped to Japan and as the international market place went into recession the only market that remained was the US. The Canadian dollar strengthening relative to the US hurt Canada's ability to competitively move wood into the US. He then referenced a fax sent by a Scandinavian Company, which details some of the on-going changes in currency fluctuations and the market. Canada and North America are currently more competitive than the Scandinavian Countries and Europe due to the exchange rate, supplies to Japan have favored Canadian and US finished product. He described that the international marketplace heavily influences the supply and demand network and that the dynamic is changing on a global scale, which has impacted prices in the US. There will be larger volumes from Canada to US and he expressed his optimism that there will be an increase in log prices.

Chair Sutherland asked if that was short-term?

Mr. Tweedale said yes over the next 12-18 months. He stated that Merrill Lynch predicted that the Canadian dollar would strengthen from 72 cents to 84 cents as compared to the US Dollar; it's currently at 78 cents.

Jim Cook referred to (handout 2) and asked if that the Scandinavian Countries captured the market because the US wasn't providing what the customers wanted.

Mr. Tweedale stated that Japan's mill capacity has faded away causing them to rely more on imports.

Ms. Bergeson asked if a differentiated niche is opening up.

Mr. Tweedale responded that due to structural changes and loss of sawmills it has created a differentiated niche.

Mr. Tweedale then gave a brief overview of the results of the January timber sales: 16 sales offered and 15 sold; 71 mmbf offered and 70.3 mmbf sold; \$15.1 million minimum bid and \$20.6 million sold; \$213/mbf offered and \$293/mbf sold; average # of bidders 4.3; 39% above minimum bid.

He then summarized where the department is heading for FY '04 (Slide 5). Volume sold target of 560 mmbf on track; offered 92 sales-sold 87 (97%); average price approximately \$285/mbf-on track; working on final FY05 volume offerings (535-560 mmbf).

Mr. Cook wondered if the Board chose an alternative that focused on value instead of volume how would the information be presented to the Board, and would volume still be the first consideration?

Mr. Tweedale responded that it would depend on what the Board would like to see and that he could present it in either format.

Jim Cook reiterated that he doesn't see value on the slide other than the average price.

Mr. Tweedale said there are different ways to portray value.

Terry Bergeson wanted to understand what value vs. volume would mean to the trusts and expressed the desire to continue these discussions.

Bruce Bare inquired as to why if the market is increasing as indicated, the upper limit on timber sales for next year is the same as last year when the market wasn't as good?

Mr. Tweedale answered that the department is at a productive capacity with a ¼ reduction in staff (product sales). If the Board assisted in policies, procedures, and streamlining the process that limit could be increased slightly.

Bruce Bare asked if he was referring to internal changes?

Mr. Tweedale responded that the Board policies that were put in place needed to be addressed to assist in DNR's productivity.

Bruce Bare asked for clarification on what policies the Board could look at to help with internal efficiency.

Mr. Tweedale said he'd be happy to provide more information.

Bruce Bare wanted to know specifically about the timber sale program and where the inefficiencies lie.

Mr. Tweedale explained that DNR is restricted to operating on 30% of the land base. Without such policy restrictions, there would be more flexibility to move in different directions and this would allow for an enhanced planning process. For example the 50\25 rule has a significant impact on productivity.

Terry Bergeson expressed concern over the complexity of the models and stressed the importance of fiscal analysis; she would like to be fully informed on the fiduciary aspect of this decision.

Mr. Tweedale discussed the shift in the organization to become more productive, reducing staff by a 1/4 just in Product Sales alone and noted that they are now selling 535-560 mbf/year. To grow even further, the growth rate and cash flow need to be balanced.

Proposed March 2004 timber sales: 12 sales at 48 mmbf; \$12 million minimum bid; average \$250/mbf.

MOTION: Glenn Huntingford moved to approve March Timber Sales.

SECOND: Terry Bergeson seconded.

ACTION: Motion passed unanimously.

CHAIR REPORTS

Spirit of the Sage - Kathy Gerla - Assistant Attorney General

Chair Sutherland informed the Board that Kathy Gerla (DNR Legal Staff) was going to brief them on a lawsuit case named Spirit of the Sage. He felt that it was of significant interest to the discussions the Board has been having in regards to the HCP and the SHC.

Kathy Gerla informed the Board that there might have been comments submitted as part of the SHC deliberations and felt that they should be familiar with the case particularly on what it did and didn't decide. She stated that the Spirit of the Sage is a case out of the US District Court in the District of Columbia and it involves the no surprises rule that was adopted by NOAA Fisheries and US Fish & Wildlife services in 1998. The rule stipulates when the Services can require someone who is signed to an HCP to go in and do additional work because of new circumstances. In the event that there are unforeseen circumstances that could not have been measured when the entity entered the HCP the Government would not require additional commitments of land, resources, or financial without the consent of the entity. The state lands HCP was signed prior to the adoption of this rule but it was under the policy, subsequently it does have "no surprises" language in it. Ms. Gerla explained that the rules were challenged by some environmental organizations and Native American organizations. The groups challenged the rule on the basis that long-term plans that don't allow the Federal Government to go in and take additional steps to ensure recovery of species, violates the APA and Endangered Species Act, however the Judge did not rule on the merits of the no surprises rule. She pointed out that the Judge did not rule one way or the other because of the previous ruling on the Permit Revocation rule which allows the Federal Services to revoke the incidental take permit altogether. US F&W adopted a new rule related to incidental take permits that in the Court's view narrowed the circumstances in which US F&W could revoke that permit. She commented that this rule was also challenged and vacated on procedural grounds, at the same time the Judge commented that the two rules were intertwined because the Federal Government had relied upon permit revocation to support the no surprises rule. She concluded that the Judge declared that in the lawsuit the rules were intertwined and he concurred therefore he chose to

remand them both back for consideration, but he did not vacate the no surprises rule, at this point it is still valid. Ms. Gerla conveyed that she will be following and monitoring this case and would keep the Board up to date as necessary.

Break at 9:50

Reconvened at 10:00

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

Carolyn Tolas - Vice President - State Board of Education (SBE) and Chair of the School Facilities Committee

Ms. Tolas stated that the selected alternative would directly affect the ability of the State School Board to adequately provide funding for schools, prisons, and hospitals. She pointed out that the State Board asked the House Capital Budget Committee to fund an additional \$10 million dollars to support their current construction responsibilities. The projects were given a priority ranking and should there be insufficient funds those schools at the bottom of the list would not be built even if the bonds had been passed. She then urged the Board to reduce constraints on the Trust Lands that restrict viable timber sales that generate revenue for the trusts. She conveyed that the SBE supports a sustainable harvest calculation that optimizes revenue over the long term and to the extent possible within the fiduciary responsibilities, provides for social and environmental benefits. A combination of elements from alternatives 2, 5, & 6 would be reasonable. She stated that the SBE commends the Board and staff for their efforts and time put in to meetings and information distribution. She then commended Superintendent Bergeson for her leadership in the K-12 community.

Terry Bergeson added that Ms. Tolas made an excellent point when she remarked that the Board of Natural Resources sets policy that generates revenue, and the School Board disperses it. She then thanked Ms. Tolas for her work on the facilities committee.

Chair Sutherland requested the list of schools that would not be funded.

Ms. Tolas said she would provide that in July when it is published.

Rod Fleck - Forks City Attorney

Mr. Fleck urged the Board to continue looking at the SHC with Terry Bergeson's memo as a sideboard. He then explained that in his opinion it's one of the most succinct articulations of 1) the trust mandate in regard to Skamania and the need to fulfill that first with as much land as possible 2) addressing the trust mandate within the legal framework of the environmental obligations of the HCP and the Forest Practices Rules. He continued that the memo is a concise expression of the issue of on and off base, which is critical as the Board develops this proposal. Mr. Fleck wondered if the outputs could be done by region and trust and posted on the website the Friday before the 17th so the public could view them before they make comments. He then encouraged the Board to listen to the Senate Natural Resources Committee presentation that was done on the UW, Iceland, Forks, and Republic effort to find uses for small pre-commercial thin materials. He then conveyed that he would be available for discussions on that topic.

Becky Kelley Washington Environmental Council (WEC) (handout 3)

Ms. Kelley urged the Board to take their time and understand the implications and details of their choices before selecting a preferred alternative. She then expressed concern over the time period available to make the selection. Ms. Kelley testified that it seems likely that the preferred alternative the Board selects may increase the amount of logging done annually in Western WA. She then requested that the public be kept informed on what procedures and policies will change according to the selected alternative

and why, particularly in areas outside of special habitat areas where timber harvest will be more frequent due to shorter rotations. Ms. Kelley requested that the Board be provided maps and spatial information that could be shared with the public. She then stated that when the Board selects the preferred alternative the public should be provided with information on what type of logging is going to be done.

Bob Dick - American Forest Resource Council (AFRC)

Mr. Dick stated that in his opinion the debate over certification belongs in the legislative arena. He then expressed his support toward the Board for continuing with the Sustainable Yield Calculation.

Ingrid Gourley - Washington State School Directors Association (WSSDA) (Handout 4)

Ms. Gourley stated that Quint Goodrich - Trust Land Task Force Chair, asked her to share with the Board the decision by WSSDA's Board of Director's on behalf of the 1, 482 School Board members to pass a resolution in support of Superintendent Bergeson's framework, Management Principles and Objectives for the SHC.

Chair Sutherland asked Ms. Gourley to convey a message to Mr. Goodrich and his task force, that the Board appreciates the intensity they have placed on this subject and that the consultation they have provided has been helpful.

On behalf of Mr. Goodrich, Ms. Gourley thanked Chair Sutherland and DNR staff for their assistance with explaining the SHC.

David Batker - Executive Director - Asia Pacific Environmental Exchange

Mr. Batker began by explaining that the economics of forestry is his specialty. He then stated that net present value criterion is inconsistent across generations; it pulls the benefits to the present and pushes the costs into the future. He continued that net present value is biased for the present generation and would violate the requirement for intergenerational equity.

Terry Bergeson asked Mr. Batker to compile information for the Board to look at regarding net present value.

Mr. Batker consented.

George Schoenfeldt - Joint Dispatcher Pacific Maritime Association (Handout 5)

Mr. Schoenfeldt stated that his industry has taken a double hit by timber restrictions through the years. He referred to the log export ban in 1990 and the lowering of the timber harvest levels approved by the Board of Natural Resources in the mid 1990's. He continued that communities in Aberdeen, Everett, Port Angeles, Longview and Olympia are dependant on timber supplies for harvesting and processing jobs. He stated that increasing the harvest levels would increase tax revenues for Clallam County and provide family wage jobs for the community. He then urged the Board to adopt Alternative 5 for the preferred alternative.

Carol Johnson - North Olympic Timber Action Committee

Ms. Johnson began by stating that she is optimistic that the Board will choose an alternative that is right for everybody. She then commended the Board for looking at all the options.

Jim Ridgeway - DNR Retiree

Mr. Ridgeway stated that in 1965 state trust lands had 23 billion board feet of standing timber, in 1995 the estimate was 23 billion, an increase of 300 million. He continued that during that 38-year period 27 billion bf were logged, and that the average was around 800 million bf per year. The highest cut at that time was over 1 billion feet, the lowest being 279 mbf. He stated that in his opinion having an annual average cut over a 27-year period of 845 million and still having a large volume of standing timber demonstrates that DNR was not over cutting. He then urged the Board to set the annual cut at the highest possible level because it can be maintained. Mr. Ridgeway then commented that there are four basic activities that provide the economic impulse that supports the entire economy of Washington State and the Nation: fishing, farming, logging, and mining. He then discussed the negative impacts of stopping any of these activities and how it would create a domino effect.

SUSTAINABLE HARVEST CALCULATION WORKSHOP

Bruce Mackey and Angus Brodie presented. Mr. Mackey began by stating that they would be showing the Board additional runs that were made since the last Board meeting. He then stated that he would like to focus today's discussion on the "Management Principles and Objectives" that Dr. Bergeson outlined. He then urged the Board to move forward and look at a draft preferred alternative that meets those principles and objectives. Mr. Mackey expressed his desire to follow the pattern of the last few meetings by looking at the various elements and spending time on the areas that the Board would like more clarification.

Angus Brodie began by discussing the Board runs which were variations of alternatives 5 & 6 (slide 3). He then explained that there were some technical issues that still need to be corrected. Mr. Brodie said he wanted to talk about some additional runs that were based on Dr. Bergeson's Management Principles to see whether or not they were applicable and if any of the parameters needed changing. He added that he would do a run that constrains the management cost at 25%.

Bruce Bare asked when the Board would see these results?

Mr. Brodie said some results will be brought to the February 17, special meeting. He continued that an alternative has been designed around the Management Principles, and he'd like to receive feedback on what the Board wants to see.

Slide 4:

Preferred Alternative Principles

Policy Direction & Subsequent Implementation

- 1) Financial Performance: Net Present Value
- 2) Align DNR operations to BNR direction
 - A) Flexibility meeting fiduciary responsibilities to optimize net present value
- 3) Active Management on an enlarged on-base landscape
- 4) Flexible framework to meet decadal objectives
- 5) Phase-in intensive management activities, subject to the 25% management fee limitations
- 6) Create a diverse mosaic
 - A) Provide broader economic, conservation, and other public benefits consistent with our fiduciary responsibilities.
- 7) Structured annual reports to the BNR
- 8) Identify lands that may have broader societal values
 - A) Prioritize transfers into protected status, removing trust designations

Mr. Brodie referred to slide 5:

Alternative based on Management Principles and Objectives: Conceptual Model

Key Policy Feature

- 1) RMZ's: use of Bio-Diversity at moderate levels in habitat areas, similar to Alternative 2.
- 2) NRF/Dispersal: Bio-Diversity in combination with DNR silviculture to meet HCP objectives.
- 3) Silviculture: "Current DNR" focus on economic potential subject to other objectives such as habitat. Constrain costs. Average minimum regeneration harvest age is 60.
- 4) Some management on unstable slopes.
- 5) Value regulated subject to volume variability limits.
- 6) Ownership groups = 20
- 7) Older Forests: Structure-based 10-15% by HCP planning unit; floating
- 8) On-base: 877,000 acres

Mr. Brodie explained that point number 3 (slide 4) indicates putting as much land on-base as possible, which would be approximately 900,000 acres, and this represents alternatives 3, 5, & 6.

Terry Bergeson wanted to know how the model produced 900,000 acres and how many acres are on base under the existing model?

Angus Brodie responded that under alternative 1 it's approximately 629,000 acres; this would be an increase of around 300,000 acres mainly due to procedural changes in owl circles.

Mr. Brodie explained that most activities are occurring in upland areas with general management objectives, which is about 22% of the land base in alternative 1. He continued that there are some activities in NRF and Dispersal, unstable slopes, and visual areas but it is very few. Overall the department is operating on about 30% of the land base and most decisions are made where it's easy to do that. He stated that the on-base acres (slide 5; #8) that are restricted to owl circles would become available for silviculture management and timber harvest, in addition the department is looking at NRF and dispersal being the principle areas for special habitat management. This alternative would involve active management on all the on-base acres but does not mean that clear cuts and regeneration harvests will be done across the entire land base. There will be a variety of intensities of silviculture depending on the objectives whether it's habitat, visual, or unstable. Mr. Brodie said there would be management in riparian areas but it would not be as extensive or intensive as alternative 6.

Terry Bergeson wanted to clarify that this was a combination of alternatives 2 & 6 and wondered if it was a conservative approach in terms of cash flow and start up costs?

Mr. Brodie said currently this model is not constrained by costs; it looks at the full potential of the land base.

Ms. Bergeson wondered if the department was conservative in adding more land base, knowing that some riparian areas and streams do not show up on spatial mapping?

Mr. Brodie said that was correct, for example if they added the buffers that are required under HCP you would end up with 18% of land base in riparian areas based on known mapped streams. It is then modified to represent 30% of the west side land base falling within riparian areas to adjust for unmapped but real streams. While the approach may not be spatially correct DNR feels that on a larger scale, the estimate is fairly close to actual on the ground conditions.

Glenn Huntingford expressed his desire for the public to understand that although the Board has been given information through new technology Jim Ridgeway's testimony demonstrated that in the last 30 years the forest has been sustained and there are still more trees growing.

Mr. Brodie clarified that all the data used are estimates.

Bruce Bare pointed out that alternative 2 had 902,000 acres on base and wondered why the recommendation in the draft preferred alternative is 877,000 acres in the first decade. He then asked why after the first decade it increases to 1.171 Million acres on base?

Mr. Brodie explained that the latter is not correct; the acres shown would be achieved during the first decade depending on when the owl circles were released.

Bruce Bare asked for clarification on page 45 of the DEIS.

Mr. Brodie explained that when it says beyond the first decade on the handout there is no distinction of when the acres will come back on. There are some acres in off base status that sometime in the future will come back on base.

Bruce Bare did not recollect that information as being accurate and felt that the additional acres came on base in the second decade and beyond.

Mr. Brodie said he would bring that information back to the Board before the 17th but that most of the deferrals are later on in the decades. The difference between the on base acres in alternative 2 & 6 had to do with unstable slopes and riparian areas.

Mr. Bare wanted to know if the additional acres were in uplands with specific or general objectives

Ms. Bergeson stated that she would like to know what changed in the model to alter the acreage.

Mr. Brodie responded that they modified alternative 6 with elements from alternative 2.

Ms. Bergeson wanted to define ownership groups and expressed concern about 20 vs. 24 ownership groups and wants to understand the implications of that for the various trusts.

Mr. Brodie referred to slide 16 and explained that ownership groups are SH units within the model where flow constraints were applied.

Bruce Mackey stated that the name "ownership" is confusing and that it's not directly related to the trusts, revenue, or who owns them; it has to do with what area is being looked at for SH calculation.

Ms. Bergeson stated that she felt it was more complicated than that. She then asked for clarification on the purpose of the four management regions and why the Counties are separate? She wanted to be clear on the rationale regarding the 20 vs. 24 ownership groups.

Chair Sutherland suggested looking at in two ways, one being a management group no matter which trusts or Counties are in it, and second accountability. He continued that when looking at what the yield should be accountability has nothing to do with how it's managed.

Ms. Bergeson asked how the Board could see the return on the trusts and what the impacts are on the management approach that will be used. She then suggested that the Board receive reports on the return to the trusts.

Mr. Bare referenced Dr. Bergeson's "Management Principles", and reminded the Board of their undivided loyalty to the trusts. The fundamental issue is that the Board has undivided loyalty to the trusts and not to ownership groups. He then asked how the Board could ensure for each of the trusts that whichever preferred alternative is done so with undivided loyalty. He then suggested performing a sustainable harvest calculation for each trust.

Ms. Bergeson reiterated her concern about fiduciary responsibility, and stated that she would like to continue discussing ownership groups until she is clear on what the bottom line for the trusts are.

Mr. Brodie remarked that running a trust level calculation has complications not from a modeling perspective, but from what would be represented in each of the models.

Mr. Mackey stated that the solution is to run the groups as one sustainable yield unit, and that's the rationale for going from 24 to 20, because then the trusts wouldn't have an arbitrary line around them.

Mr. Bare questioned that reasoning and stated that you could take each of the 12 trusts and calculate a SH for each by HCP planning unit or calculate a SH for each trust for the entire Westside, and either way protects the undivided loyalty to the trusts. He then stated that in his opinion you couldn't demonstrate loyalty to the trusts if you have already pooled the trusts into ownership groups.

Mr. Brodie felt that if the habitat constraints were removed then one could see the impacts of ownership groups.

Mr. Bare stated that some University of Washington professors had suggested this form of model several years ago such that the first step was performed without habitat constraints being imposed on each trust.

Mr. Brodie said they would do an unconstrained run and bring it back to the Board.

Ms. Bergeson remarked that she wants assurance that the trusts are not losing anything in regard to output over time.

Mr. Bare suggested that once the final preferred alternative is chosen, the Board could request that the model be run on a trust-by-trust basis.

Mr. Brodie stated that there are two options in regard to ownership groups, either maintaining it at 24 or moving to the 20 and assessing the consequences on each individual trust.

Mr. Bare pointed out that the Counties want to be considered as separate units.

Mr. Brodie said it was a policy choice made in 1992 under the Forest Resource Plan. He continued that under the Forest Board transfer protocol the revenue goes to the County and that it is based on the harvest level in that area.

Mr. Huntingford mentioned that there is a concern over the balance of timber age classes within the unified trust.

Ms. Bergeson stated that the unified trust and the unified ownership are two different things.

Mr. Brodie responded that he had modeled a run similar to this in August of 2000 and found that there was not a significant difference between the two approaches, hence confirming the policy choice under the Forest Resource Plan in 1992.

Ms. Bergeson wanted to know if those results would change if this run were applied to one ownership group for the entire west side.

Mr. Brodie responded it might but he would have to examine a run to make sure.

Mr. Bare said some of the west-side trusts benefited from just such a pooling undertaken as part of the HCP and some of the trusts did not.

Mr. Mackey stated that was true in the first decade but in the long run they should all be the same.

Mr. Brodie stated that if one were to lump together smaller land bases they would suffer wider variations over time. If the objective were steady income over time than this would be an issue. If the objective is measuring net present value the variation is less important.

Mr. Mackey commented that because the timber sale program is a land base system the timber sales are tracked by trust all the way through the accounting system.

Ms. Bergeson wondered if the Department could account for the revenues generated per trust including the costs associated with generating it.

Chair Sutherland referred to the proposed timber sales for March 04' and pointed out sale #10 which falls into Grays Harbor and Thurston Counties, and has three different trusts. He continued that even as specific harvest sales are developed the trusts are kept track of throughout the process. Chair Sutherland agreed that management and accounting are intertwined.

Ms. Bergeson asked how the department benefits from clustering ownership groups?

Mr. Mackey responded that from the trust standpoint there is no reason for ownership groups. He continued that historically it was done because of location, isolation, and communication issues. Mr. Mackey expressed his opinion that the department looks across all the regions when putting up timber sales as opposed to having a certain amount come out of one region every year. Mr. Mackey stressed that in his opinion eliminating the ownership groups would maximize the return to the trusts.

Mr. Cook interjected that as a practical matter taking the five ownership groups and making it one is one level of policy change. It's a much different policy change to take the seventeen plus two (i.e., the OESF and Capitol Forest) and make them one group.

Mr. Brodie concluded the discussion on ownership groups and indicated that a name change would be implemented in the policy.

Mr. Bare referred to slide 5 (points 1, 2, 3) and asked for clarification on the form of thinning involved in alternative 2 compared to alternative 6.

Mr. Brodie responded that the thinning would be heavier in the conceptual model but the area that would be impacted would be similar to alternative 2.

Mr. Bare wanted to know the acreage and what the exact silviculture treatment would be.

Mr. Brodie responded that alternative 2 constrains the amount of area but has a heavier thin.

Mr. Bare stated that alternative 6 includes thinning where relative density was lowered to 35 in small diameter dense stands.

Mr. Brodie reminded the Board that these runs were modeling assumptions to assess the level of harvest that might be achieved. He continued that the Department is using the most up to date knowledge to provide parameters for guidance in the Board's decision on a sustainable harvest calculation.

Mr. Bare stated that he would like to know what the assumption is?

Mr. Brodie responded that the final procedure might look slightly different; once there is a riparian strategy the department will be able to change the assumptions.

Mr. Bare brought attention to Chapter 2 of the DEIS in regard to NRF and Dispersal. He asked if NRF and Dispersal habitat requirements would be treated as a target instead of a constraint, the same as alternatives 2 through 6.

Mr. Brodie said yes.

Mr. Bare wanted to know if there was anything different in the modeling of the biodiversity pathway in NRF and Dispersal that differs from the way it was done for alternative 6.

Mr. Bare then asked if DNR silviculture was also applied to some acres within alternative 6?

Mr. Brodie responded that was incorrect, and that alternative 2 has DNR silviculture.

Mr. Bare stated that in NRF and Dispersal habitat areas alternative 6 silviculture is applied.

Mr. Brodie agreed.

Mr. Bare asked where in NRF and Dispersal is DNR silviculture applied?

Mr. Brodie explained that alternative 6 has a lower level of silviculture investment so the planting densities and pre-commercial thinning would be lower, and there would be no fertilization.

Mr. Bare asked what criteria are used to decide whether biodiversity pathways or DNR silviculture is applied in the NRF and Dispersal area.

Mr. Brodie said DNR allocates the land by stand characteristic.

Ms. Bergeson asked for a description of a NRF and Dispersal area where DNR silviculture and biodiversity pathways would be applied.

Mr. Brodie said the allocation is based on the stand characteristic so you might find all these stands in one area.

Ms. Bergeson stated that if you applied biodiversity from alternative 6 in combination with DNR silviculture in alternative 2, what stand of trees would be in that area?

Mr. Brodie responded that there are two lengths of rotation depending upon the stand.

Mr. Brodie then explained that there would be a light thinning to open up the canopy slightly; this would maintain the decadence in the stands to 130 - 140 years. In older stands that did not have the decadence there would be heavier thinning in a shorter period of time. In stands that have not reached maturity age there would be light thinning and if there were some decadence a higher level of basal area would be removed. He then continued that applying biodiversity pathways equitably across trusts is something he is trying to show in the runs.

Mr. Bare wanted to know what land class and area the principles in #3 (slide 5) would be applied to.

Mr. Brodie said the principles would be applied to uplands with general management objectives and also with specific management objectives, but in the latter area there is a constraint upon the stand which maintains 50% of the area with a closed canopy.

Mr. Brodie added that if you were to look at the two management regimes between alternative 5, 6, & 2, alternative 6C would not be maximizing net present value at age 60. This run was designed to maximize net present value subject to structural condition.

Mr. Bare asked how many of the 600,000 acres would have non-NRF and Dispersal silvicultural applied to them?

Mr. Brodie responded that he would let Mr. Bare know after the break.

Ms. Bergeson asked for clarification on number 7 (slide 5).

Mr. Brodie explained that across the alternatives there were policy options developed for older forests. In alternatives 5 & 6 a 10-15% target was chosen to be in the more complex structural conditions.

Ms. Bergeson wondered what floating means? (In reference to point 7, slide 5)

Mr. Brodie responded that once the target is reached it could be rotated; it is not completely off base.

Mr. Bare wanted to clarify that the policies discussed under point 7 (slide 5) are older forests that are not in NRF and Dispersal areas.

Mr. Brodie said no they include them.

Mr. Brodie indicated that the implementation of this policy would imply that stands that have NRF and Dispersal would be protected and preserved until more structure was created elsewhere.

Mr. Bare referred to four guidelines on page 214 of the DEIS and asked which one applies to point 7 (slide 5). He then stated that in alternatives 2-6 the old growth is maintained and wanted to know how many acres there are?

Mr. Brodie responded with approximately 2,000 acres.

Mr. Bare asked for clarification on whether or not alternatives 2-6 maintains old growth areas and the management for old forest conditions in the OESF as defined in the HCP.

Mr. Brodie said that was correct.

Mr. Bare wanted to know if the 50/25 strategies were applied to alternative 6.

Mr. Brodie said it was not implemented for alternative 6, but would retain a minimum of 8 trees per acre.

Mr. Brodie moved on to slide 7 and discussed the model for alternative 6D:

Model Runs Designed using Management Principles and Objectives

Variations of Alternative 6

Alt. 6C – Combined run Alternative 6 and Alternative 2

As Alt. 6 except it applies:

- Silvicultural investment as in Alt 2 (DNR Current) to uplands with general management objectives
- Biodiversity thinning on uplands with specific objectives and riparian areas.
- Limits activities in riparian areas similar to Alt. 2

Alt. 6D – as Alt. 6C with management costs constrained at 25% of gross revenue

Management costs are constrained using the following assumptions:

- Current Gross Revenue sufficient to cover necessary Department's variable and fixed costs for Westside timber harvest
- Achieving a higher level of harvest from current (470 MMBF for Westside) will result from increased labor productivity and/or increased expenditures (capital)
- Today, Department does not have any access to surplus capital, therefore any increase in expenditures must be preceded by an increase in gross revenues as a result of increased labor productivity.

Ms. Bergeson wanted to know if the Department had access to any other financial tools?

Chair Sutherland stated that the financial aspect is an important one and will be discussed further at a later date.

Mr. Cook articulated that technology is changing logarithmically not linearly, and that has a significant impact on labor productivity.

Break for lunch at 12:20

Reconvened at 1:10

SUSTAINABLE HARVEST CALCULATION WORKSHOP CONTINUED

Chair Sutherland stated that although Bob Nichols was not able to attend the meeting he did have a few points he'd like to convey to the Board. Mr. Nichols indicated that he was comfortable with the moderate riparian approach but that his difficulties were with the biodiversity issues that have been discussed particularly in the rural/urban interface. He felt that the biodiversity in the urban areas were more critical than in the rural areas, and that in terms of ownership groups he'd like to see the greatest amount of flexibility. Lastly, he indicated that he strongly supported the Commissioner's proposal on Old Growth.

Chair Sutherland then commended Mr. Brodie and his team for their dedication in providing data to the Board.

Ms. Bergeson commended the DNR Staff for bringing all the data forward.

Mr. Brodie thanked Weiko Jaross and Brian Lu for their input and assistance with the SHC project.

Mr. Brodie began by supplying some answers to questions raised earlier in the meeting. Mr. Brodie reiterated that HCP guidelines for management of NRF and Dispersal is based on Watershed analysis Unit (WAU), and that strategy has not changed. The second question was regarding acres; in 2004 there would be 807,000 acres on base. If the proposed policies in that alternative were followed, then by 2013 there would be approximately 1 million acres.

Mr. Bare asked if the reason there were 902,000 acres on base in alternative 2 is because it includes the unstable slopes, riparian areas and removal of the owl circles?

Mr. Brodie explained that the difference between the 902,000 acres and the 807,000 acres is that in the first instance the unstable slopes are deferred and in the second the administrative owl circles are being removed.

Mr. Bare asked about the unstable slopes shown in the conceptual model (slide 5).

Mr. Brodie said that the unstable slopes are categorized in the uplands with specific objectives; there would be canopy cover in this area.

Chair Sutherland wanted to make sure the Board was comfortable with where they were in the discussions.

Ms. Bergeson expressed concern about receiving enough data before the 17th in order to make an informed selection of the preferred alternative.

Chair Sutherland stated that his objective is to have the final concurrence and FEIS completed by June 30th, 2004.

Mr. Bare asked about the trust-by-trust analysis and when it would be brought to the Board.

Mr. Brodie said that it would have to be discussed with his team.

Mr. Cook asked what the cost of thinning is and does the management cost stay at 25%, or is it calculated over the 60 years.

Mr. Brodie responded that thinning could be a financial loss in certain circumstances.

Mr. Cook asked if there was a market for the timber removed in a thinning?

Mr. Brodie stated that the thinning market has gone up and down due to the pulp market but it depends on the overall market. In biodiversity thinning you take a wider diameter distribution from the stand therefore you have a variety of products.

Mr. Mackey added that there were some technological changes occurring in the market namely commercial producers producing smaller wood and that there is an emphasis on processing smaller wood. Infrastructure and transportation changes also have an impact on delivered costs.

Ms. Bergeson suggested that the mix and match alternative 6C be called alternative 7 to lessen the confusion and implications of tying it to alternative 6.

Mr. Brodie agreed to bring back the alternative with a clearer description of the silviculture.

Mr. Cook referred to point 5 (slide 5). He asked if a particular value was targeted as the determining factor for sustainable harvest how would the markets being up or down affect the cut levels?

Mr. Brodie responded that making a distinction between regulation over a period of time and regulation within a decade is essential because they are two different things. Regulation within a decade is controlled by current policy.

Ms. Bergeson remarked that inside the decade, volume fluctuation (plus and minus 25% from the decadal harvest level) would be implemented to achieve fullest value possible. She then asked how a number could be applied to that?

Mr. Brodie said there would be an indication of gross revenue related to volume resulting in a decadal target volume.

Ms. Bergeson stated there should be more emphasis on value as well as managing the silviculture.

Mr. Cook remarked on the paradigm shift in tracking value and how it will open new ways of doing business.

Ms. Bergeson asked for clarification on slide 6 (handout 6).

Mr. Brodie explained slide 14 (handout 6) in relation to cash flow, start up costs, and fund balances.

Mr. Mackey stated that current total expenditures are projected to be \$51 million but previous to this administration the amount was \$62 million. DNR has reduced cost by \$11 million and increased output.

Mr. Brodie responded that 7A would demonstrate the potential of the forest and 7B would be constrained to a 25% management fee.

Chair Sutherland referenced handout 6 (Commissioner's Old Growth Proposal to the Board). He stated that the Department had been having conversations and started looking at how many acres were on base and off base and what limitations were on those acres. He stated that Alternative 2 is illustrative of the expected impacts of the proposal. The first decade annual volume impact is approximately 1.7 million bf,

or 0.3% of the projected harvest level for alternative 2. The financial impact is \$.7 million, which is 0.4% of the total annual gross revenue projected in alternative 2. The proposal restricted clear cutting but retained thinning as a way to improve habitat; compensation is part of the proposal. He added that this proposal would exclude the OESF. He then apologized for surprising the public and the Board and that had not been his intention. He felt that this proposal was consistent with what the Board was discussing currently with the SHC.

Mr. Mackey stated that there are approximately 50,000 acres of Old Growth in the OESF so it leaves a small portion outside of that area. The other aspect the department looked at was the fact that there is no cutting in the Old Growth and there are no plans to cut there in the future.

Chair Sutherland remarked that there would be field-testing to see how much Old Growth is really out there.

Mr. Bare stated that he doesn't see how the Chair's Old Growth proposal correlates with the six SH alternatives since none of them have this proposal incorporated into them. He then asked if this proposal defines a fifth old forest option and if so how does it fit into the SHC?

Mr. Brodie stated that Mr. Bare was correct in stating that it's a fifth policy option and explained that it clarifies alternative 4 which looks at preserving all stands over 150 years of age while also demonstrating what would happen upon immediate implementation of alternatives 5 & 6.

Mr. Bare asked how the Old Growth proposal would be included in 5 & 6.

Mr. Brodie stated that there was a target of structurally complex forests with 10 - 15%.

Mr. Bare said that habitat was designed to move across the landscape and with the Chair's proposal it would be restricted to a fixed land base.

Mr. Brodie agreed but continued that it fits in with the elements that have already been analyzed.

Mr. Mackey stated that it would be consistent with the Old Growth policy in alternatives 5 & 6 because it would continue to build old forest structure around the areas that were already in place.

Mr. Bare asked if the old forest stands aren't going to be cut for 70 years what is the need for action today?

Mr. Mackey stated that it's a policy call and it demonstrates the social and economic value.

Mr. Bare asked if the acres of Old Growth were set-aside would there be compensation to the trusts?

Mr. Mackey responded that many of the acres are already serving an HCP function. If there were Old Growth stands that society wants to preserve then the department could benefit the trusts by compensation.

Ms. Bergeson asked for clarification on what elements fit into the Old Growth proposal.

Mr. Brodie responded that the older forest conditions described in point 7 (slide 5) are based upon meeting the structurally complex forest stages. The range is anywhere from developed under story to old natural forests. He continued that the Chair's Old Growth proposal would be a subset of those structures.

Mr. Huntingford commented that if the proposal is adopted what would happen to the floating aspect.

Mr. Brodie responded that these stands would not be regenerated.

Mr. Mackey pointed out the importance of remembering that less than 15% of the land base in many watershed units is classified as old growth forest.

Mr. Huntingford expressed concern about the forest health of trees on Federal land on the Eastside with passive management and wanted to make sure that this proposal doesn't create habitat that isn't desired. He continued that it might limit options for managing the trusts in the future. Two other concerns were lack of funding and what impacts the proposal would have on specific trusts in the long-term.

Ms. Bergeson suggested eliminating the Old Growth proposal from the model and keeping it the way it was. She'd like some time to look at the assumptions in the DEIS, and then have more discussions on preserving natural old growth forests.

Chair Sutherland concurred.

Mr. Cook asked what the difference in management of the Old Growth proposal would be in terms of off base acres.

Mr. Mackey responded that there were two ways to look at the opportunity costs 1) look at the data 2) we are not harvesting old growth stands.

Mr. Huntingford wanted to know why the Department is going outside of the HCP and preserving more acreage when DNR is already managing it well?

Chair Sutherland remarked that DNR does virtually no management in old-growth areas whether or not it's on base or off base. He continued that this proposal would clearly define where those areas 20 acres or larger are, and secondly it would give policy direction to the department on what to do in the 20 acre parcel and outside the 20 acres.

Mr. Brodie added that the old growth proposal makes an important distinction between old growth forests and older forests, and it defines the implementation aspect of the policy.

Ms. Bergeson requested that Mr. Brodie come back to the Board with an integrated proposal that could be looked at and discussed.

Chair Sutherland stated that the Lake Whatcom FEIS would be deferred until the April 6, meeting. He continued that he attended a meeting with the Mayor, County Executive, and a representative of the Water District regarding the interjurisdictional committee and the department will be giving them a proposal in the near future.

Meeting adjourned at 2:45 p.m.

Approved this ____ day of _____, 2004

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Bruce Bare, Dean, University of Washington

R. James Cook, Dean, Washington State University (Interim)

Terry Bergeson, Superintendent of Public Instruction

Glen Huntingford, Commissioner, Jefferson County

Attest:

Sasha Lange, Board Coordinator